SECURING THE FUTURE OF EU STEEL:

ADDRESSING GLOBAL OVERCAPACITY AND UNFAIR TRADE PRACTICES

GLOBAL STEEL OVERCAPACITY: THE ROOT PROBLEM

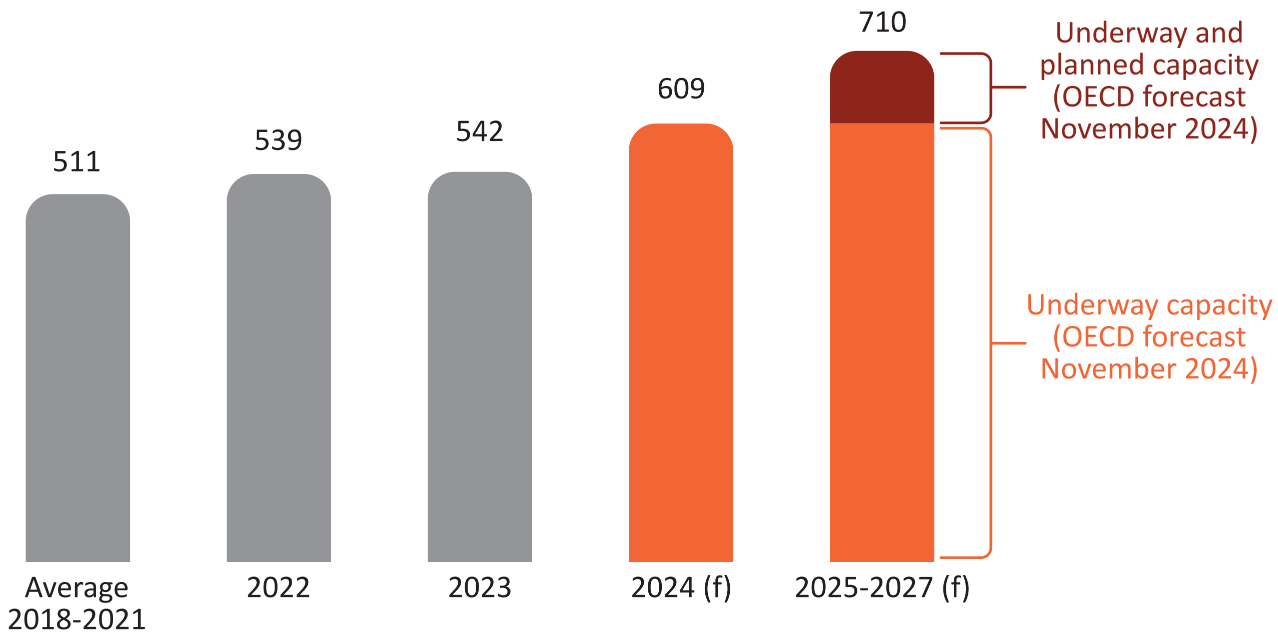
Steel is a fundamental pillar of the economy, essential for infrastructure, construction, and industrial development. In developing countries, steel production capacity is typically expanded to meet the growing demand of domestic markets. However, once these infrastructure needs are fulfilled, production capacity should -*ideally*- be adjusted accordingly. When this adjustment does not happen and steelmaking capacity continues to exceed demand, it leads to a situation known as excess capacity.

Technical definition
Steel excess capacity refers to the surplus of steelmaking capacity compared to actual steel demand.

On a global scale, persistent excess capacity creates significant economic distortions, including market imbalances, price depressions, and unfair competition.

As of 2024, global steel overcapacity exceeded 600 million tonnes, more than 4x the EU's total annual steel consumption. With overcapacity due to increase further, the expectation is that it will reach 700 million tonnes by 2027.

Gap between Global Capacity and Demand



Source: OECD (November 2024), World Steel demand forecast.

As a result:

EU steel production has fallen by 31 million tonnes since 2018.

The share of imports reached 27% in 2024.

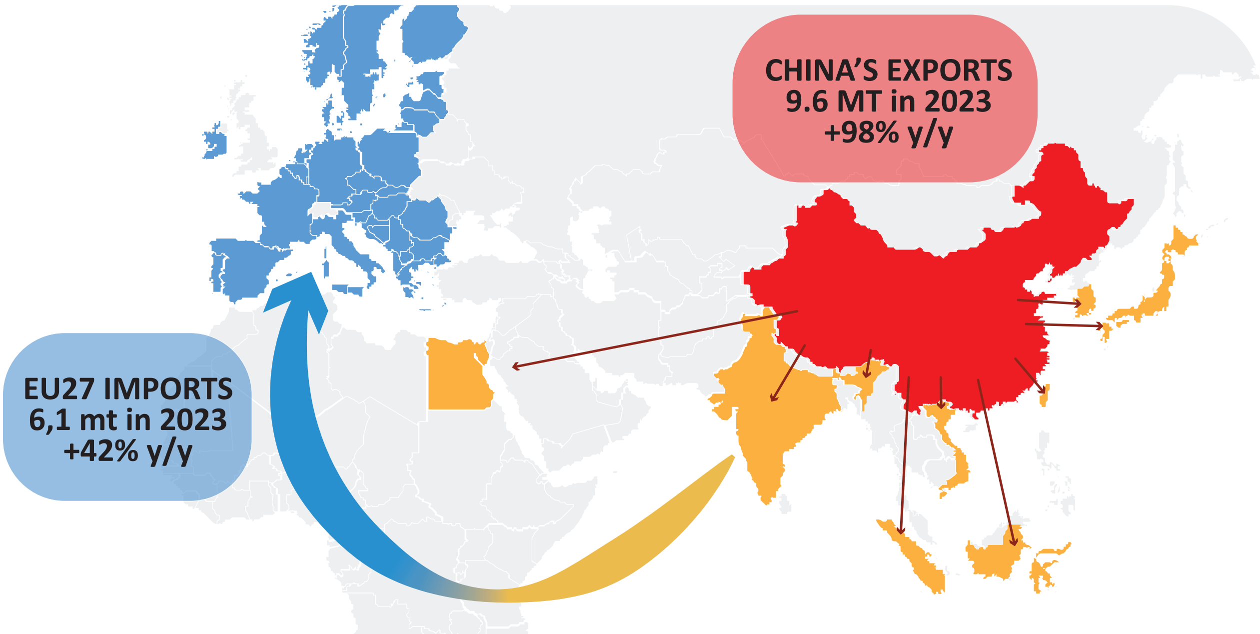
Steel prices have collapsed, and even with anti-dumping duties, imports are still undercutting EU producers.

18,000 jobs cuts were implemented or announced in 2024, adding to the 100,000 job losses in the last 15 years.

EXAMPLE

In 2023, Chinese exports of hot-rolled coil to key markets like Egypt, South Korea, Japan, Taiwan, India, Vietnam, and Indonesia rose by 98%, adding 9.6 million tonnes to global supply. At the same time, EU imports from these countries surged by 42% (6.1 million tonnes), showing how excess global steel stemming from China is spilling over into the EU market via other countries.

Surging Chinese exports worldwide causing additional import pressure in the EU (HRC)



GLOBAL STEEL OVERCAPACITY: ALSO A CLIMATE DISASTER

While the EU steel industry is investing in low-carbon production to meet EU climate targets, a massive number of new coal-based furnaces are being built worldwide, locking in high global emissions for decades.

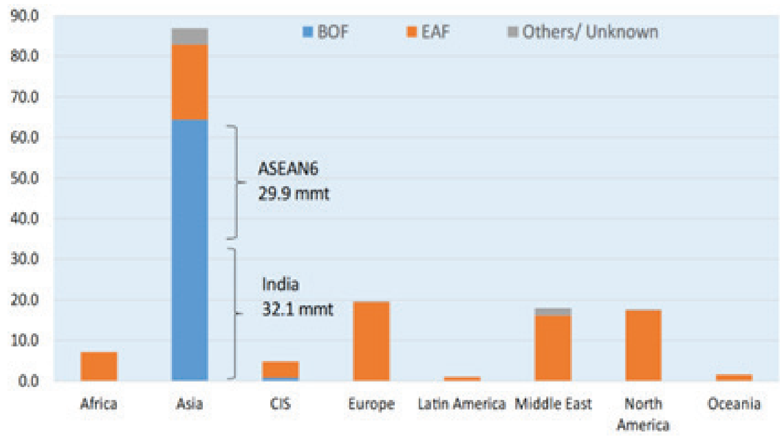
- By 2026, an additional 60 million tonnes of global coal-based steel capacity will come online, equivalent to the total annual steel production of Italy and France combined.
- The steel industry is responsible for approximately 7-11% of global CO_2 emissions. The European steel emissions accounts for 0.5% of these global CO_2 emissions.
- Without urgent action to curb overcapacity, the EU's decarbonisation efforts will be undermined, making global climate goals impossible to achieve.

Global Gross capacity additions 2024 to 2026

(planned and in progresss)

157 million tonnes, mainly very CO2 intensive

Source: OECD (June 2024)



THE US-EU STEEL TRADE DISPUTE: ADDING FUEL TO THE FIRE

March 2018 — *Trump imposes Section 232 Tariffs*

- The US introduced a 25% tariff on steel imports under Section 232, citing national security concerns.
- The tariffs diverted global steel supplies to Europe. For every 3 tonnes blocked from the US, 2 tonnes flooded the EU market.
- The EU introduced retaliatory measures imposing tariffs against a number of US goods such as motorbikes, bourbon, etc.

July 2018 — *EU implements Steel Safeguards*

- To protect European producers and workers, the EU introduced a Tariff Rate Quota (TRQ) system based on 2015-2017 import levels.

October 2021 — *The US Grants EU exemptions and TRQ*

- Under the Biden administration the US granted exemptions and implemented its own TRQ system for the EU, allowing about 3.8 million tonnes of EU exports annually (down from 4.6 tonnes before 2018).
- The EU suspended its retaliatory measures against US goods. The EU and US agreed to negotiate a Global Arrangement on Sustainable Steel and Aluminium (GASSA).

Oct. - Dec. 2023 — *Suspension of GASSA negotiations and extension of TRQ*

- The EU-US negotiations on the GASSA are put on hold. The suspension of US tariffs on EU steel is extended until end of 2025, while the suspension of EU retaliatory measures is extended until March 2025.

February 2025 — *Trump Reinstates 25% Tariffs (Trump II)*

- The US announces an end to TRQ and exemptions, reinstating full 25% tariffs on all EU steel exports as of 12 March 2025.
- This puts at risk an additional 3.8 million tonnes of EU steel exports, on top of the 1 million tonnes already lost since 2018.
- The tariffs expand to "derivative steel articles", affecting an additional 1 million tonnes of exports, bringing to 7 billion euros the total value of EU steel exports impacted by US tariffs.
- The 25% blanket tariffs would now apply also to the 18 million tonnes of steel exported to the US but previously benefitting from exemptions like the EU, posing an even greater deflection risk for the EU market from countries such as Canada, Mexico, Brazil, Argentina, Japan, South Korea, UK, Australia, and Ukraine.

THE URGENT NEED FOR ACTION

The current EU safeguard measures need a robust tightening under the ongoing review by the European Commission to adapt them to today's market conditions.

The current EU steel safeguards will expire in June 2026, with no option for further extension under WTO rules. Meanwhile, global steel overcapacity is at record levels, with the spill-over effect pushing prices down and putting European producers at risk.

Imposition of equivalent EU tariffs against US steel imports to the EU will have little to no impact, as US steel imports to the EU accounted for just 0.3% of EU overall steel imports in 2024. EU countervailing measures on other US imported goods to the EU such as motorbikes, bourbon, etc. while having political significance and economic impact, will not directly solve the challenges facing the European steel industry.

The real threat is steel flooding the EU market as global suppliers redirect exports originally bound for the US.

To protect the EU steel industry, the current safeguards must be strengthened immediately and then replaced with a long-term post-safeguard tool after June 2026 to prevent market destabilisation.

How steel global excess capacity has a spillover effect on the EU market

The 5 dynamics of global steel excess capacity from an EU perspective

China's direct impact on the EU steel market:

1. EU Imports from China

China's indirect impact through third countries:

2. EU imports incorporating foreign subsidised substrates from China (also Indonesia)
3. EU imports from Chinese (excess) capacity expansions in third countries

Other countries' impact on the EU steel market:

4. EU imports from third countries that compensate for loss in traditional export markets
5. EU imports from (excess) capacity build-up in third countries without Chinese involvement

MAIN TRADE TOOLS EXPLAINED

Tarif Rate Quota (TRQ) vs. Flat Tariff

- A flat tariff applies the same duty rate to all imports, regardless of quantity (e.g., the US' 25% steel tariff in 2018 and 2025).
- A TRQ system allows a set volume of imports tariff-free, with tariffs imposed on excess volumes.
  - Flat tariffs create predictable conditions but increase consumer costs and can lead to inflation rise.
  - TRQs balance internal market protection and market access, ensuring fair competition and consumer interest.
- On 11 February 2025, the US announced the end of the EU's TRQ and reinstated a flat 25% tariff, further hindering EU steel exports to the US.

EU Steel Safeguards vs. Standard TRQs

- The EU safeguards, introduced in 2018, are a temporary trade defence measures under WTO rules to counteract sudden import surges.
- Unlike standard TRQs, the EU safeguards must be progressively liberalised-often leading to a disconnection from market developments, exclude developing countries and have strict review requirements.
- With the current safeguards set to expire in June 2026, the EU must develop a post-safeguard system to prevent a market collapse.

EU Steel Safeguards vs. Standard TRQs

Measure	Purpose	Trigger	Who it applies to	Duration & Review	Liberatisation
Safeguards	Protects against import surges	Sudden, unforeseen rise in imports	All imports (except exempted developing countries)	**Max. 8 years (yearly review)**	**Yes**
Anti-Dumping	Prevents unfair price practices	Investigation proves injury because of unfair pricing	Specific exporters engaging in dumping practices	**Indefinite (5-year reviews)**	**No**
Anti-Subsidy	Offsets government subsidies	Investigation proves injury because of subsidies	Specific subsidised exporters	**Indefinite (5-year reviews)**	**No**

WHY TODAY'S CRISIS IS STRUCTURALLY DIFFERENT FROM THE PAST AND REQUIRES NEW SOLUTIONS

The current steel crisis is more severe and complex than in 2015 and 2018, when the first massive wave of Chinese imports and the Trump I tariffs respectively hit, due to:

- **Falling EU demand, rising global overcapacity:** EU steel demand is weak, while global overcapacity is at record levels. Overcapacity has expanded beyond China to ASEAN, the Middle East, and North Africa.
- **China's economic slowdown is flooding global markets:** China's weaker economy has led to a surge in steel exports, overwhelming markets and driving down prices even below production costs.
- **New trade challenges and loopholes:** Alongside direct exports, China and others have built steel plants abroad, creating new excess capacity now targeting the EU. Many imports now include cost-distorted substrates, circumventing EU trade rules.
- **Steel redirection to the EU:** Countries losing export markets because of market saturation (mostly in Asia) are shifting steel sales to the EU, adding to oversupply.

Trade Defence Instruments (TDI) are not enough

Trade defence instruments (TDI), like anti-dumping (AD) and anti-subsidy (AS) measures, help tackle unfair trade but are insufficient to handle today's unfair trade practices:

- **Limited impact:** AD and AS target specific products from specific countries, but they do not address global overcapacity or broader market distortions. Each case involves complex and lengthy investigations, making enforcement slow and reactive.

The "Whack-a-Mole" Effect: In 2015, the EU tackled through anti-dumping and anti-subsidy measures a group of dumped Chinese steel products, but today, the issue is bigger. Steel now floods in from multiple countries, often using cost-distorted materials (from China, Indonesia, ...) to bypass trade rules. When the EU imposes duties on a certain product from a specific country, exporters reroute the same product through other countries.

Why Tariffication - and not flat tariffs - is part of the solution

Only a tariffication system can prevent market disruptions caused by global steel overcapacity while safeguarding consumer's interest:

- A new, long-term TRQ regime is needed to counterbalance trade spill over of global overcapacity just as the EU safeguards did in response to US Section 232 tariffs in 2018.
- Unlike blanket tariffs imposed by the Trump administration, a TRQ system allows duty-free imports up to a set limit, applying tariffs only on excess volumes to maintain market stability.
- A TRQ system ensures balance between demand and supply, provides business predictability allowing domestic steel producers to invest in decarbonisation, and maintains steel users' access to imports securing their competitiveness.
- Tariffication is a global norm, with many countries using tariffs to regulate steel imports, ensuring fair competition and market stability.

EUROFER
THE EUROPEAN STEEL ASSOCIATION

Avenue de Cortenbergh, 172
B-1000 Brussels
+32 (2) 738 79 20
Economic Report contact:
a.sciamarelli@eurofer.eu
www.eurofer.eu

Follow us on X @EUROFER_eu

The European Steel Association is recorded in the EU transparency register: 93038071152-83.
VAT: BE0675653894. The RLE or RPM is Brussels.